SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q4 2020

INTRODUCTION

Investors in companies have an important shared responsibility in holding the board to account for the management of the business.

On behalf of our clients we are active in voting on matters put to shareholders, and we closely monitor investee companies and engage on issues of concern relating to corporate governance, capital structure and strategy. We do this because we believe that poor governance can adversely affect the returns for investors and, equally, good stewardship can lead to better returns over the long term.

As long-term investors, we also take an interest in the broader market environment in which companies operate. Where we perceive problems, and believe we can catalyse positive change, we will reach out to policy-makers and other key market participants to promote reform. Our objective is to shape the regulatory and market environment to support more sustainable economic growth.

Given the emphasis we place on responsible and active ownership, we aim to communicate openly with our clients and other interested parties about our activities. This report offers a window into our recent company engagement, policy outreach and voting activities.

STEWARDSHIP:
POLICY AND COMPANY ENGAGEMENT

Our engagement work with companies and in the broader market aims to address governance failures, strategic challenges or other market imperfections with a view to protecting and enhancing shareholder value. We are pleased to share with you some of our successes from the last quarter. [In an effort to make this report more interaction and to allow those who are interested to delve into more of the detail, you will find links to further analysis and presentations below

COMPANY ENGAGEMENT: ANOTHER SUCCESS - ARAMARK'S CHANGE OF AUDITOR

In December, Aramark announced the change of auditors from KPMG to Deloitte; which would be put forward for shareholder approval at the upcoming AGM in 2021. This represents the latest success in our engagement with the company. KPMG has served for 18 years, and we had argued resulted in elevated risks to independence.

GOVERNANCE

In 2019, we commenced engagement on issues including auditor tenure, remuneration, combined CEO/Chair, strategy and communication. To date we have seen the following impacts from our engagement (see table 1)

COVID-19

Where the company's performance is more mixed is with respect to Covid-19. As mentioned in previous updates, we initiated a Covid outreach effort in early 2020, focusing on companies in the hospitality, travel and retail sectors, and their treatment of key stakeholder groups (e.g. customers, staff, suppliers). Aramark was identified as a Covid risk company. We reached out to the company to highlight our expectations and understand the company's actions in the early stages of the pandemic, particularly with respect to the treatment of its workforce.

Based on our discussions we gained reassurance on certain issues, including the focus on the physical wellbeing of employees, positive actions in the community, and the responsible use of employee furlough schemes. However, we have some concern about long-term incentives for executives in light of significant employee layoffs, and will review the company's remuneration in advance of the upcoming AGM.

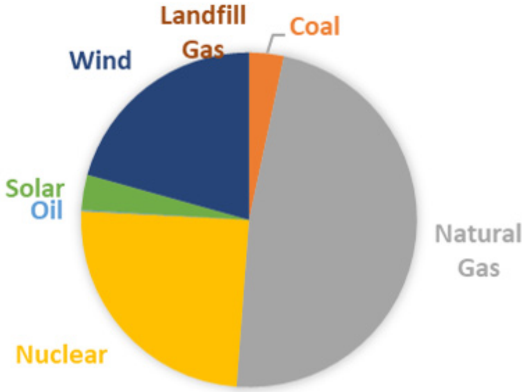
COMPANY ENGAGEMENT: NEXTERA

NextEra is a leading US power utility investing in the energy transition. It is not only the third largest power utility in the US, but it operates the second largest zero-carbon fleet. Coal represented just 3% of its fleet in 2019 (see figure 2) which means that NextEra sits in the top quartile of power companies for its lower carbon intensity – and is ranked second after Exelon when compared to its largest listed and private peers. This matters because the electricity sector in the US accounts for about a third of total carbon emissions.

TABLE 1

KEY ENGAGEMENT OBJECTIVES	ENGAGEMENT RESULTS
Improve Board independence	New CEO and Chair appointed in late 2019, replacing previous combined CEO/Chair. Board refreshed.
Business simplification: focus on just contract catering where the company has scale, expertise, and a leading position	No material change
Alignment of executive remuneration with long-term shareholders' interests: reducing quantum, introducing post-departure shareholding requirement, disclosing targets.	New CEO's pay package cut by 25%
Strategic focus on improving growth in the long-term	Aramark now focuses on growth, although growth initiatives will take time to show results (e.g. hiring more sales staff, creating new brands)
Clear communication to the market on all of the above: to avoid unnecessary confusion and disappointment.	Ongoing improvements.
Change in auditor as KPMG's tenure exceeds 15 years	New auditor put forward for approval at the 2021 AGM

FIGURE 2: NEXTERA NET GENERATION 2019 (MWH)



Source: Nextra, 2019

A key aspect of NextEra's business model is the replacement of expensive coal-fired power with cleaner and cheaper gas and increasingly renewable energy. Higher profitability at NextEra is well aligned with better climate credentials.

Notwithstanding NextEra's significant renewables portfolio, its large size makes it the ninth largest carbon emitter in the US. NextEra clearly has an important role to play in the global effort to combat climate change. Yet, the Board has not made a commitment to net zero emissions by 2050 as required by the Paris Agreement; a target increasingly adopted by more carbon-intensive peers. Its current plan is to reduce emissions intensity by 67% by 2025 from a 2005 baseline – equating to a 40% emission reduction. Aside from the clear risks to the planet, the danger of this 'go-slow' approach for shareholders is that continued investment into long-lived natural gas infrastructure could lock NextEra onto a pathway that will overshoot net zero.

Following engagement with NextEra's Executive Chair in 2018 and 2019, where we asked that the Board commit to aligning with Paris, we wrote again in July 2020 and escalated our action at the AGM, voting against several directors, the auditor and remuneration. In December, we took on co-leadership of the CA100+ engagement for NextEra with Californians Public Employees' Pension Scheme, and coordinated a collective letter to the Chair from 15 institutions representing almost $2.5 trillion in assets. We asked again for the Board to make a commitment to net zero by 2050 or sooner. We look forward to further dialogues with the Board in 2021 and are confident that NextEra has the ability to take a more proactive approach.

MARKET OUTREACH

IMPACT: INVESTORS COME BEHIND PARIS-ALIGNED ACCOUNTING

Last quarter, we outlined the vital importance of companies producing Paris-aligned audited accounts, and the traction we have gained in the UK and internationally. This quarter, in partnership with the Institutional Investor Group on Climate Change (IIGCC), we released detailed "Investor Expectations for Paris-aligned Accounts".

The paper sets out investor expectations for financial statements to properly reflect the impact of getting to net zero emissions by 2050 for assets, liabilities, profits and losses. Only then will management, investors and creditors have the information they require to deploy capital in a way that is consistent with the Paris Agreement. Where companies fail to deliver on these expectations, the paper details actions that investors will take, including engagement, voting, and – in certain cases – divestment.

The document was sent to the Audit Committees and lead audit partners at 36 European listed companies spanning energy, materials and transport with the support of investors representing over $9 trillion in assets.

This is a nine-fold increase on the support we received when we started our engagements with Shell, BP and Total in 2019. We believe we are approaching a tipping point: investors from across Europe and the US now expect companies to adjust their accounting and audit processes to align with getting onto a 2050 net zero pathway.

Following an ongoing engagement, Blackrock also echoed this call in a paper published in October, adding a further $8 trillion to this effort. In the paper, Blackrock is clear: "Financial reporting should reflect reasonable assumptions about the impact of climate risk and the transition to a low carbon economy on the company's profits, liabilities and assets". In a footnote, they spell out what this means: accounting assumptions should be consistent with the move towards net zero by 2050.

It is our hope (and goal) that we will begin to see companies start delivering climate-conscious accounting numbers in 2021. Only then can we have confidence that capital will start to be deployed in a manner consistent with a sustainable planet. Where companies fail to act, we will be escalating our votes against both Audit Committee members and auditors.

[1] Full document can be downloaded here: https://sarasinandpartners.com/stewardship-post/investor-expectations-for-paris-aligned-accounting/

[2] See https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf

KEY VOTES AND ENGAGEMENTS
Q4 2020

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. We take our voting responsibilities on behalf of our clients seriously. We believe voting provides shareholders with an important lever for ensuring proper corporate accountability and responsible stewardship, which is a critical input into delivering better returns over the long term.

The table below shows how we voted on company resolutions during the period under review. It also explains why we voted the way we did, and whether the resolution was approved by shareholders or not.

Company	Date	Resolution	How we voted for you	Result
Sonic Healthcare Limited	12 November 2020	Approve remuneration report	Against	Passed

We voted against the remuneration report because the company has not disclosed whether there is a shareholding requirement and there are inadequate 'clawback' policies to enable a company to reclaim compensation (bonuses and other incentives) awarded for performance that was subsequently found to be erroneous or short-lived. To ensure executive pay is aligned with shareholders' interest, we believe shareholdings must represent a material share of the executives' reward and wealth, and must be held at least until retirement from the company in question. A significant proportion of executive remuneration should be related to through-cycle performance targets, and should be reviewed (although not necessarily changed) regularly. This means companies should put in place a shareholding requirement and a clawback policy.

We have communicated our votes to the company and have been engaging with them on the above issues.

Percentage of votes cast for the resolution: 94.3% for, 5.7% against.

Company	Date	Resolution	How we voted for you	Result
Associated British Foods Plc	4 December 2020	Approve remuneration report	For	Passed

We have engaged with the company over the last five years on remuneration and have voted against the remuneration report and policy during that time. 2020 was the first year we supported their remuneration report reflecting the fact that the company has now addressed most of our concerns.

In the past, we were concerned that part of the long-term incentives left out performance of the sugar business, but the company continued to allocate capital to that business. A second concern was that the Finance Director received higher-than-average-employee pension contribution. Thirdly, the executive shareholding requirement was only 4x salary and did not require executives to hold any shares post their departure. Finally, we did not view the remuneration committee chair as independent.

We have met with the remuneration committee chair almost once a year to discusses these issues and have seen improvements. Before the 2020 annual general meeting, the outstanding issues were the higher-than-average-employee pension contribution and the low shareholding requirement. While the remuneration committee decided to keep the low shareholding requirement, pension contribution to the Finance Director will finally reduce by end of 2022, and the executives had undertaken temporary pay cut in light of Covid. We believe the company has acted responsibly and hence supported their remuneration report. We will continue to press for a higher shareholding requirement.

Percentage of votes cast for the resolution: 99% for, 1% against.

Company	Date	Resolution	How we voted for you	Result
Softcat Plc	10 December 2020	Re-elect director	For	Passed

We would normally vote against the election of the former Chief Executive, who is now the Chair of the Board, because he sits on the nomination committee. These board committees should compromise only independent directors.

However, we supported the election of the Chair in this case because the company has been very responsive to our engagement. The Chair had previously held the position of nomination committee chair and since our engagement he has stepped down as chair but retains as a member of the committee. We will continue to engage with him regarding his membership in the nomination committee.

Percentage of votes cast for the resolution: 98.3% for, 1.7% against

VOTING SUMMARY

		2016	2017	2018	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Total number of company meetings		968	1,165	1,072	1, 228	168	378	113	112
Total number of proposals		10,387	13,244	13,433	13,373	1,459	5,401	1,304	1,004
Votes cast	for	7,728	8,570	11,152	8,732	1,064	3,576	1,022	716
	against	1,681	2,354	2,611	2,678	235	1,090	171	150
	abstain	61	101	181	129	7	82	2	4
	withhold	84	83	79	100	2	72	0	3
	did not vote[1]	833	2,136	1,420	1,641	151	581	109	131

[1]We do not currently vote in jurisdictions in which share blocking and power of attorney requirements apply.

Further details are available upon request.

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